

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF GTE SOUTH	)	
INCORPORATED FOR AN ORDER	)	
AUTHORIZING THE ISSUANCE AND	)	CASE NO. 90-065
SALE OF SECURITIES	)	

O R D E R

On March 22, 1990, GTE South Incorporated ("GTE") filed an application for authority to issue and sell up to \$150,000,000 of its First Mortgage Bonds and/or promissory notes. On April 12, 1990, GTE amended its application asking authority to register \$200,000,000 of its First Mortgage Bonds and/or promissory notes. GTE will register the new securities with the Securities and Exchange Commission ("SEC") under the "shelf registration" provisions of SEC Rule 415. The securities will be issued in one or more series from time to time not earlier than the first day the securities are approved by all regulatory authorities and registered and authorized by the SEC and not later than two years after the registration statement becomes effective with the SEC. A portion of the proceeds from the sale of the securities will be used to refinance short-term debt previously incurred to finance construction activities. Those proceeds not used to refinance short-term debt, will be used to redeem certain high coupon debt issues. These issues are more fully described as the company's First Mortgage Bonds, Series X due 2005 and carrying a coupon rate of 9-3/8 percent, First Mortgage Bonds, Series BB due 1995 and

carrying a coupon rate of 11-3/8 percent and First Mortgage Bonds, Series 9.95 percent due 1999. As of November 30, 1989, the face value of the bonds outstanding was \$110,495,000. The outstanding bonds will be redeemed over the next two years, if and when conditions in the bond market make it advantageous to do so. GTE believes that it can issue new securities at a reduced rate which would be to the benefit of GTE and its ratepayers.

GTE in Case No. 9964<sup>1</sup> requested approval to issue and sell securities to redeem the First Mortgage Bonds, Series X due 2005 and Series 9.95 percent due 1999, if bond market conditions made it advantageous to do so. The Commission wishes to be apprised as to whether the redemptions do in fact occur and will therefore require GTE to report on the redemptions upon their completion.

GTE did not make any proposals regarding the manner in which it was going to handle the call premiums and unamortized discount and expenses of the redeemed issues. However it is clear from the "pro forma" journal entries submitted with the application that GTE plans to recover these costs over the life of the new bonds. On July 19, 1989, GTE filed an application in Case No. 89-201<sup>2</sup> which sought a waiver from Part 32 of the Federal Communications

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<sup>1</sup> Case No. 9964, The Application Of General Telephone Company Of The South For An Order Authorizing The Issuance and Sale of Securities.

<sup>2</sup> Case No. 89-201, Application of GTE South Incorporated For a Waiver and Authority to Amortize the Call Premium Expenses and the Unamortized Costs of Issuance Expenses in Connection With Previous Authority Granted to Sell First Mortgage Bonds and/or Promissory Notes in the Amount of \$150,000,000.

Commission ("FCC") rules that require call premiums and unamortized discounts and expenses associated with redeemed debt to be expensed currently. The Commission found in that case that selective deviation from FCC rules would frustrate the intent and application of the rules. The Commission further found that if bonds can be refinanced at a lower cost, they should be, regardless of whether current earnings are artificially depressed over the short term.

The Commission, being sufficiently advised, HEREBY ORDERS that:

1. GTE is authorized to issue, sell, and deliver new securities in the form of First Mortgage Bonds and/or promissory notes in one or more transactions over a two-year period with the aggregate principal amount not to exceed \$200,000,000 through underwriters to the public either through competitive bidding or negotiated sale or on a private placement basis at a negotiated price. The termination date of this authority shall be not later than two years after the registration statement becomes effective with the SEC.

2. The authorization is contingent upon a showing that the effective overall embedded costs of GTE will be minimized as a result of the transactions.

3. The terms and interest rates of the new First Mortgage Bonds shall be determined in negotiations between GTE and the purchasers or through competitive bidding. The maturity date of the new First Mortgage Bonds shall be not less than 5 nor more than 40 years from the date of issuance. The new First Mortgage

Bonds will have an annual embedded effective cost that is lower than the issues being redeemed.

4. The proceeds from the refinancing authorized herein shall be used only for the lawful purposes as set out in the application.

5. GTE shall, as soon as reasonably possible after the issuance of the securities referred to herein, file with the Commission an exhibit showing the date or dates of issuance of the securities authorized herein, the purchase price, the interest rate, the purchasers and all fees and expenses incurred including discounts, commissions, or other compensation associated with the financing. GTE shall also file with the Commission an exhibit showing that the redemption of Series X, Series B B or Series 9.95 percent First Mortgage Bonds has occurred, the date or dates of the redemption, the redemption price, and any call premiums and unamortized discounts and expenses associated with the redeemed securities.

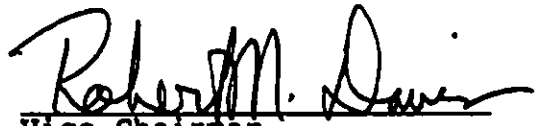
6. GTE shall conform to the Order in Case No. 89-201 and expense any call premiums and unamortized discounts and expenses associated with the redeemed securities for Kentucky intrastate reporting purposes.

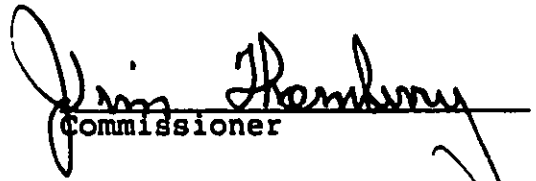
Nothing herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 25th day of April, 1990.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

  
Executive Director